B5350-2A

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 4, 1984 VOLUME XXI, NUMBER 22

Petroleum Demand Is On The Rise . . .

The heady business expansion which is just entering its 19th month has revived consumer and industry demand for petroleum. Following five years of nonstop declines, U.S. oil consumption began posting year-over-year increases last summer and in the first four months of this year, it was more than five percent ahead of last year. But considering the unusually long and frigid winter, low gasoline prices and the torrid pace of recovery, it is interesting that the turnaround was not even more dramatic.

It thus remains clear that conservation efforts adopted over the past decade remain an important part of the energy picture as American consumers and industry alike continue to emphasize efficiency. To illustrate, while the economy expanded by a sharp 8.8 percent at a seasonally adjusted annual rate in the first quarter, compared with the October-December period, oil consumption rose only slightly more than half as fast during this period. This means that we are still using less and less energy to produce a given level of output.

According to the Department of Energy, in 1983, 45,900 BTUs of energy including petroleum, natural gas, coal, hydro and nuclear electricity among others, were needed to produce one dollar of "real" GNP. This was well below the 59,200 BTUs needed in 1973. What is more, only 19,500 BTUs of petroleum energy were needed to produce one GNP dollar in the first quarter of this year, whereas nearly 28,000 BTUs were utilized in 1973.

. . . But Improving Efficiency . . .

Probably the most important strides in petroleum conservation have been made by American motorists. For despite a 25 percent rise in the number of cars on the road since 1973, consumption of gasoline in the U.S. was actually lower in the first four months of 1984 than it was 11 years earlier! The major reason for this decline in gasoline demand in the past decade has been the dramatic improvement in the fuel efficiency of the nation's fleet. Although the average age of all cars in use has risen to 7.4 years—the oldest in nearly 35 years—the average number of miles traveled per gallon of fuel consumed is estimated to have increased by about one-third since 1973 (see table). Undoubtedly, the sharp rebound in new automobile sales in 1983 and so far in 1984 has helped accelerate the rise in fuel efficiency, despite carbuyers' renewed interest in larger cars. According to the U.S. Department of Transportation, new cars—domestic and foreign—got an average of 26.4 miles per gallon in 1983, up from 14.2 in 1974.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,002		579		15.5
1982	9,167		561		16.3
1983(p)	9,371		566		16.6
1984(e)	9,641		554		17.4

(p) preliminary
Sources: Federal Highway Administration; MHT estimates

Demand for gasoline in the first four months of 1984 rose only 0.5 percent compared with the same period a year ago. Stepped-up efficiency notwithstanding, this is a surprisingly small rise considering most people's improved financial positions and their perceived rosier employment and income prospects. But motorists do not seem to be heading for the highways the way they used to. They drove an estimated 8,460 miles at an annual rate in the first quarter, less than they clocked in 1973 and five percent below 1978's first quarter. This is further underscored by the Conference Board's latest survey of vacation plans. It shows that last June 32.5 percent of households surveyed intended to take driving vacations in the ensuing six months, but since then the proportion has been steadily shrinking. The latest poll reveals that only 29.8 percent intend to drive.

For those who do plan to drive this summer, things are looking up. Gasoline prices are currently lower than they were at yearend 1983 and are, on average, only one cent above year-ago levels. This is because

Copyright 1984
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

stocks of gasoline have been swelling counter-seasonally since early winter. Normally, they start to be drawn down in February, but refiners this year have added some 15 million barrels to their storage tanks since then.

The colder than normal winter and the stepped-up production of home heating fuel are partly responsible for the bulging storage tanks of gasoline. This is because during the refining process, each barrel of crude oil yields about twice as much gasoline as it does distillates. So while refiners cranked up production to satisfy the jump in demand for distillates which include home heating oil and diesel fuel, they added to their inventories of gasoline at the same time.

. . . Dampens Consumption

But while the increased demand for home heating oil has been well publicized, the even more dramatic surge in diesel fuel consumption has not. In response to a 15 percent year-over-year rise in the number of ton miles hauled by railroads, a 13 percent increase in truck tonnage, and increased fuel use by farmers, who planted more crops this year than last, consumption of diesel fuel jumped nearly 16 percent in the first quarter, compared with a year ago. As a result, the cost of a gallon of diesel fuel is now higher than that for regular gasoline in many parts of the country.

Although refiners stepped up production of distillates, supplies rose less rapidly than demand,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/30/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	160.710	+ 3.674	+11.316
Loans to Depository Inst.	3.008	– .738	+ 1.890
Float	.383	– .056	– 1.334
Total Reserve Bank Credit	172.188	+ 3.026	+11.862
Treasury Deposits with Federal Reserve Banks	3.332	– .688	+ .449
Currency in Circulation	172.603	+ .827	+12.910
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.517	– .133	+ 5.567
	5/23/84		
Member Bank Reserves:			
Total Reserves Held	35.812	– .060	+ 1.706
Excess (Deficiency)	.619	+ .028	+ .169
Net Borrowed Reserves	2.907	+ 2.613	+ 3.021
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (5/21/84)	544.3	+ 5.3	+ 7.1
M2 (April '84)	2,242.5	+ 6.5	+ 7.7
M3 (April '84)	2,790.8	+ 10.2	+ 9.4
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/1/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.10%	11.29%	12.06%
* Federal Agencies	10.18	11.44	12.01
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	10.65	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.20	11.95	12.81

‡Finance Company Paper—Prime

5- 14 days	10.30%
15- 29 days	10.40
30- 59 days	10.45
60- 89 days	10.50
90-179 days	10.40
180-239 days	10.25
240-270 days	10.25

‡* Bankers' Acceptances

Jul.	10.65%
Aug.	10.80
Sep.	10.90
Oct.	11.25
Nov.	11.45
Dec.	11.45

‡Industrial Paper—Prime

30- 89 days	10.30%
90-120 days	10.65

†Federal Funds Effective Rate 10.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons)†	May '84n	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84n	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100)†	Apr '84n	167.8	166.9r	152.5
Industrial Production Index (1967=100) †	Apr '84	163.1	160.9	142.6
Net Change in Consumer Installment Credit †	Mar '84	$ 5.87	$ 6.61	$ 2.94
U.S. Merchandise Trade Balance †	Apr '84n	–$ 12.19	–$ 10.26	–$ 4.73
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84n	$ 302.5	$ 302.0r	$ 247.4
Total Business Inventories †	Mar '84	$ 531.8	$ 527.2r	$ 499.4
Total Business Sales †	Mar '84	$ 400.7	$ 398.8	$ 348.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

causing inventories to plummet to record lows. But while this spells firming diesel fuel prices for truckers and railroads this summer, homeowners will not feel its impact until next fall when the 1984-85 heating season begins. And for motorists, the seasonal increase in gasoline prices, which generally occurs sometime around Memorial Day and lasts through Labor Day, will be dampened by plentiful supplies or may even fail to materialize at all. What is more, overall demand for energy is expected to flatten out once again as the pace of business starts to slow later on this year.

The Iran-Iraq war should not affect the price outlook, either. The attacks on vessels traveling in the Persian Gulf have not yet caused any significant price movements on the spot and futures markets. Widespread knowledge of existing large stockpiles in the major oil-importing countries, along with Saudi Arabia's huge floating storage outside the Strait of Hormuz and the additional production capacity by the countries outside the Gulf seem to have dampened traders' worries so far. However, tanker freight rates and shippers' insurance premiums have spiked sharply higher, adding several dollars to the cost of each barrel of petroleum. Since freight and insurance are not included in spot market quotes, at least one oil producer has agreed to give discounts on its oil prices to offset—at least partially—these added costs of delivery. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/16/84)	146,566	+ 1,862	+ 625
New York City (5/23/84)	30,990	+ 593	– 2,448
Commercial Paper (5/23/84)	214,848	+ 2,516	+45,213

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/16/84)	240,527	+ 1,103	NA*
New York City (5/23/84)	63,373	– 205	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/16/84)	605,001	+ 3,283	NA*
New York City (5/23/84)	137,099	+ 212	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 6/1/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.15%	+ .15	+ 1.19
180-Day Bills†	11.15	– .05	+ 1.85
Longest Bills†	12.00	+ .05	+ 2.52
Recent Issues:			
12⅝s 5/31/86	12.75	–0–	
12s 3/31/88	13.30	+ .05	
13⅛s 5/15/94	13.60	– .15	
13¼s 5/15/14	13.55	– .20	
Municipals:			
Bond Buyer–20 Bond Index* (5/31/84)	11.07%	+ .24	+ 1.29
Blue List Total ($ Million)	$1,378	– $202	+ $ 58
30-Day Visible Supply ($ Million)	$2,176	– $520	– $718
Total	$3,554	– $722	– $660
Corporates:			
Moody's Aa Composite (5/31/84)	14.47%	+ .16	+ 2.32
30-Day Visible Supply ($ Million)	$ 410	– $100	– $180
Stocks:			
Dow-Jones Averages:			
Industrials	1,124.35	+ 17.25	– 88.69
Transportation	478.09	+ 15.33	– 72.97
Utilities	124.37	+ .82	– 5.24
65 Stocks	438.33	+ 8.05	– 40.31
Standard and Poor's 500 Stocks	153.24	+ 1.62	– 11.18
N.Y.S.E. Composite Index	88.15	+ 1.03	– 6.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,293	+ 3,965	+ 5,358

* 46% Taxable equivalent 20.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/1/84	Week Ago
Overnight	9.69%	10.13%
1 month	10.75	10.75
3 month	11.63	11.63
6 month	12.38	12.31
1 year	13.38	13.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.00%	13.00%
Long Term (7 to 15 yrs.)	13.25	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/1/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01810	55.25
Canada	.7730	1.2936
Denmark	.1003	9.9675
France	.1201	8.3288
Germany	.3695	2.7060
Italy	.0005970	1675.00
Japan	.004337	230.55
Mexico	.004902	204.00
Netherlands	.3277	3.0513
Switzerland	.4455	2.2448
U.K.	1.3920	.7184

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic is at the Westchester Country Club in Harrison, New York. June 4th-10th.

- Tickets for the Sports House and grounds for 7 days – $60. Grounds only – $45. Monday and Tuesday (qualifying and practice rounds) – $5 or $3 per day. Wednesday (the Pro-Am) – $10 or $6. Thursday, Friday, Saturday, Sunday – $18 or $15 each day.
- Seve Ballesteros, defending champion, and other top pros from the PGA Tour, will compete for $500,000 in prize money, and the winner's purse of $90,000.
- Proceeds help support these area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mt. Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 3rd, then at the gate. To charge with MasterCard or VISA call (212) 808-8100.
- For more information call (914) 967-5356.

MANUFACTURERS HANOVER
The Financial Source.℠ Worldwide.

Member FDIC

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

002080000032565 C 39 SRIAC0001
MR. SRI ACQUISITIONO
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 E.-W. HIGHWAY SUITE 800
BETHESDA, MD 20814